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INFO OCT-01 ISO-00 ONY-00 /010 R

DRAFTED BY EA/EP:STAFF:SRP
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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
JUNE 7, 1977

1. CIEC (CONFIDENTIAL)

OUR CIEC PARTICIPANTS CONSIDER THE OUTCOME OF THE
MINISTERIAL MEETING, WHICH WENT ON FOR AN EXTRA DAY AND
INTO THE EARLY MORNING OF JUNE 3, AS REASONABLY
SATISFACTORY. UNDER THE CIRCUMSTANCES THIS WAS A DAMAGE
LIMITING OPERATION. THE TONE AND ATMOSPHERE WAS GOOD
THROUGHOUT AND THE TWO SIDES REACHED AGREEMENT ON A
NUMBER OF ISSUES PRETTY MUCH ALONG THE LINES ENVISAGED
BY THE US BEFORE THE MEETING. THERE IS ALSO A LONG LIST
OF ISSUES ON WHICH THE TWO SIDES AGREED TO DISAGREE. THE
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GAP IN THE AGREED PACKAGE AND THE ONE ON WHICH THE MEDIA
FOCUSED WAS THE LACK OF AGREEMENT ON AN ONGOING ENERGY
CONSULTATION PROCESS.

GOOD COOPERATION EXISTED THROUGHOUT THE MEETING AMONG
THE INDUSTRIALIZED COUNTRIES. THE JAPANESE MAINTAINED
AN EVEN LOWER PROFILE THAN USUAL. THE HEAD OF THEIR
DELEGATION WAS DESCRIBED AS "SPEAKING NO KNOWN LANGUAGE
AND HAVING NO SUBSTANTIVE RESPONSIBILITY FOR ANY OF THE

ISSUES DISCUSSED". ONE MEMBER OF THE JAPANESE DELEGATION TOLD OUR DELEGATION THAT THEIR LOW KEY APPROACH IS MEANT TO AVOID DOMESTIC EMBARRASSMENT IF THE US WERE TO CHANGE ITS POSITION ON AN ISSUE AT THE LAST MINUTE. THE G-19 DEMONSTRATED THEIR VULNERABILITY TOWARD THE G-77. THROUGHOUT THEY WERE UNWILLING TO DEPART FROM PREVIOUSLY APPROVED G-77 FORMULATIONS. FOR THE SAME REASON THEY WERE UNABLE TO SELECT FEW ISSUES ON WHICH THE CONFERENCE COULD CONCENTRATE. THE INDONESIANS, THE SOLE LDC PARTICIPANTS FROM EA, WERE CONSTRUCTIVE AND HELPFUL.

TWO QUESTIONS REMAIN. ONE, PUBLIC AND CONGRESSIONAL PERCEPTION OF THE OUTCOME OF CIEC; WHETHER THE FAILURE OF OBTAINING A FORUM FOR ENERGY DISCUSSIONS (AND THEREBY A MODERATING INFLUENCE ON PRICES) WILL AFFECT SUPPORT FOR INCREASED ASSISTANCE AND OTHER BENEFICIAL TREATMENT TO THE LDCS. THE OTHER QUESTION IS WHERE WE GO FROM HERE ON THE NORTH/SOUTH DIALOGUE. TWO GLOBAL MEETINGS WILL TAKE UP WHERE CIEC LEFT OFF, THE RESUMED SESSION OF THE 31ST GENERAL ASSEMBLY AND A "MINISTERIAL" MEETING OF THE TRADE AND DEVELOPMENT BOARD OF UNCTAD. THE OECD MINISTERIAL WHICH SECRETARIES VANCE AND BLUMENTHAL WILL ATTEND THIS MONTH WILL ALSO DISCUSS THE FUTURE DIRECTIONS OF THE NORTH/SOUTH DIALOGUE. INCREASINGLY WE WILL WANT TO FOCUS ON SPECIFIC ISSUES IN APPROPRIATE NEGOTIATING FORUMS. REGIONAL DISCUSSIONS, SUCH AS CONTEMPLATED CONFIDENTIAL

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WITH ASEAN ARE ALSO MORE PROMISING THAN GLOBAL MEETINGS ON THE TOTALITY OF ISSUES.

2. ECONOMIC POLICY REVIEW CONCLUDES (UNCLASSIFIED)

THE EA ECONOMIC POLICY REVIEW WHICH HAS BEEN UNDERWAY FOR THE LAST MONTH DREW TO A CLOSE FRIDAY WITH A FINAL WRAP UP SESSION. WE ARE NOW EXAMINING THE CONCLUSION AND ACTION MEMORANDA DRAWN UP BY INDIVIDUAL COUNTRY DIRECTORATES TO COMMUNICATING THE ELEMENTS OF OUR DELIBERATIONS TO THE FIELD. IN ADDITION TO DEVELOPING THE SPECIFIC ACTION PLANS, THE SERIES OF MEETINGS WAS A PARTICULARLY USEFUL VEHICLE IN BRINGING TOGETHER AT ONE TIME A NUMBER OF INDIVIDUALS HAVING RESPONSIBILITY FOR VARIOUS POLICY PROGRAMS AND INSTRUMENTS IN THE REGION.

3. IDA ALLOCATIONS (LIMITED OFFICIAL USE)

A MEETING IN THE WORLD BANK LAST WEEK DISCUSSED NEW GUIDELINES FOR LENDING FROM THE WORLD BANK'S SOFT LOAN WINDOW UNDER THE EXPANDED IDA RESOURCES FROM THE FIFTH REPLENISHMENT. THE BANK MANAGEMENT SUGGESTED THAT INDONESIA, VIETNAM AND LAOS BE CONSIDERED ELIGIBLE FOR

IDA FINANCING. AGAINST INITIAL TREASURY AND EB OBJECTIONS WE WERE SUCCESSFUL IN ARRIVING AT A POSITION OF NOT OPPOSING INDONESIA'S ELIGIBILITY. IN FACT, THE US AND JAPAN SUGGESTED THAT SOME LOW MIDDLE INCOME COUNTRIES (E.G. THAILAND AND THE PHILIPPINES IN THE EA REGION) ALSO QUALIFY FOR IDA LOANS FOR SOME TYPE OF PROJECTS. NO DECISIONS WERE MADE AND THE DISCUSSION WILL CONTINUE IN JULY, PARTICULARLY TO SEE WHICH COUNTRIES WOULD BE AFFECTED BY ADDING TO THE LIST OF ELIGIBLES.

4. COMMODITIES (CONFIDENTIAL)

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THE EPG APPROVED STATE'S POSITION THAT, IF PRESSED BY THE PRODUCERS DURING THE UNCTAD RUBBER MEETING, WE COULD AGREE TO ENTER NEGOTIATIONS FOR A RUBBER STABILIZATION AGREEMENT.

NEVER WILLING TO ACCEPT DEFEAT, STATE IS RETURNING TO THE TPRC TO TRY TO GET APPROVAL FOR THE REDESIGNATION OF FOUR SMALLER SUPPLIERS, THAILAND AND THREE LATIN AMERICAN COUNTRIES, AS ELIGIBLE FOR GSP BENEFITS ON SUGAR.

DESPITE AN EARLY CONSENSUS REGARDING THE NEED FOR FURTHER STUDY, THE UNCTAD MEETING ON TROPICAL TIMBER BECAME DIFFICULT WHEN PRODUCERS HELD FIRM FOR WORDING IMPLYING AGREEMENT ON AN ACTION PROGRAM. THE CONSUMERS SUCCEEDED IN MODERATING THE LANGUAGE ALTHOUGH JAPAN STILL FELT THE NEED TO MAKE A QUALIFYING STATEMENT. THE ASIANS, LED BY MALAYSIA AND INDONESIA ALSO HELPED TO MODERATE THE MORE EXTREME AFRICAN POSITION FOR A BUFFER STOCK AGREEMENT BY EMPHASISING THE NEED FOR IN-DEPTH STUDIES. THE FINAL DOCUMENT ESTABLISHES A COMMITTEE OF GOVERNMENTAL EXPERTS AND CALLS FOR ANOTHER SESSION NOT LATER THAN NOVEMBER 1977.

5. STEEL TO REMAIN A PROBLEM (LIMITED OFFICIAL USE)

WHILE WE ARE TRYING TO PERSUADE THE JAPANESE TO AGREE TO THE TERMS OF REFERENCE FOR AN OECD AD HOC STUDY, A SURVEY OF THE WORLD STEEL MARKET CONCLUDES THAT NET IMPORT DEMAND FOR STEEL WILL FALL FAR SHORT OF EXPORTABLE CAPACITY THROUGH 1980. LOOKING AT ALL OF THE FACTORS AT PLAY IN THE WORLD STEEL MARKET, THE CONCLUSION IS THAT THE MAIN TRADE DIFFICULTIES WILL BE BETWEEN THE US AND JAPAN. EUROPEAN PRODUCERS WILL LOSE THEIR EXPORT MARKETS TO JAPAN AND WILL PROTECT THEIR DOMESTIC MARKETS; LDCS WILL CONTINUE TO PROTECT THEIR INDUSTRIES; AND ALTHOUGH COMMUNIST, MIDDLE EAST AND SOUTH ASIAN COUNTRIES

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WILL REMAIN NET IMPORTERS, THEIR IMPORTS WILL ABSORB LESS

THAN HALF OF JAPAN'S POTENTIAL EXPORTS. THIS LEAVES ONLY THE US AND POSSIBLY CANADA AS POTENTIAL MAJOR OUTLETS FOR SURPLUS JAPANESE STEEL.

6. MEKONG COMMITTEE MEETING WITH VIETNAMESE AND LAO
SCHEDULED FOR JUNE 25 (LIMITED OFFICIAL USE)

DISCUSSIONS BETWEEN THE MEKONG COORDINATING COMMITTEE SECRETARIAT (MCC) THE VIETNAMESE AND THE LAO ON THE MODALITIES OF BRINGING THESE LATTER TWO GOVERNMENTS BACK INTO MEKONG COMMITTEE ACTIVITIES ARE SLATED FOR JUNE 25. PREPARATORY TO THIS SESSION THE MCC EXECUTIVE AGENT APPROACHED SEVERAL BILATERAL DONORS TO GENERATE PLEDGES FOR AN ADDITIONAL DOLLARS 50 MILLION IN DIRECT AID FOR VIETNAM AND LAOS AS A SWEETNER FOR THE FORTHCOMING DISCUSSIONS. REACTION, HOWEVER, WAS COOL WITH MOST DONORS PREFERING TO TAKE A WAIT AND SEE ATTITUDE. ALTHOUGH VIETNAMESE INTENTIONS MAY BE BETTER CLARIFIED IN THE SCHEDULED JUNE 25 MEETING, IT SEEMS LIKELY THAT THEY WILL BE ASKING FOR A GOOD DEAL MORE MEKONG DEVELOPMENT ACTIVITY THEN EXISTED IN SOUTH VIETNAM PRIOR TO THE CHANGE OF REGIME. INTERESTINGLY, WE ALSO HAVE AN UNSUBSTANTIATED REPORT THAT THE CAMBODIANS HAVE BEEN RECENTLY INQUIRING ABOUT DETAILS OF MEKONG COMMITTEE ACTIVITY. WHETHER OR NOT REACTIVATION OF THE MEKONG COMMITTEE'S ACTIVITIES WILL ACTUALLY OCCUR, HOWEVER, REMAINS AN OPEN QUESTION BUT THE FACT THAT THERE IS SOME CONTINUAL FORWARD MOVEMENT IS A POSITIVE SIGN IN ITSELF.

7. EC/ASEAN PLAN TO STRENGTHEN TIES
(LIMITED OFFICIAL USE)

EC REPRESENTATIVES IN BRUSSELS HAVE CALLED FOR ESTABLISHMENT OF AN ASEAN/EC DIALOGUE IN WHICH THE NINE PERMANENT CONFIDENTIAL

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REPRESENTATIVES AND THE ASIAN AMBASSADORS WOULD MEET SEMI-ANNUALLY TO DISCUSS MUTUAL PROBLEMS. THE PROPOSAL WHICH IS DESIGNED TO DEMONSTRATE EC INTEREST IN THE ASEAN STATES WAS SUPPORTED PARTICULARLY BY THE GERMANS, FOLLOWING ON FOREIGN MINISTER GENSCHER'S RECENT TRIP TO THE REGION. AN ASEAN OFFICIAL IN BRUSSELS WAS NON-COMMITTAL REGARDING SUCH A DIALOGUE; FOR ALTHOUGH THE GROUP CLEARLY WANTS TO STRENGTHEN RELATIONS WITH THE COMMUNITY, IT IS NOT YET AGREED ON WHAT FORM SUCH A RELATIONSHIP SHOULD TAKE.

8. SECRETARY BERGLAND'S TRAVELS (UNCLASSIFIED)

CONTRARY TO INFORMATION WE HAD RECEIVED FROM AGRICULTURE, SECRETARY BERGLAND IS APPARENTLY PREPARED TO SPEAK ON

SUBSTANTIVE ISSUES DURING HIS TRIP TO EAST ASIA. THE JOURNAL OF COMMERCE REPORTS THAT SECRETARY BERGLAND TOLD NEWSMEN THAT THE JAPANESE GOVERNMENT HAS AGREED TO SUPPORT IN PRINCIPLE THE ESTABLISHMENT OF AN INTERNATIONAL GRAIN RESERVE PROGRAM. BERGLAND WAS ALSO REPORTED TO HAVE PUSHED FOR AN INCREASE IN THE JAPANESE QUOTA ON IMPORTS OF US BEEF.

9. SKIPJACK TUNA SURVEY REPORT (UNCLASSIFIED)

DURING A VISIT TO WASHINGTON, DR. MACU SALATO, SECRETARY GENERAL OF THE SOUTH PACIFIC COMMISSION, AND AID REACHED TENTATIVE AGREEMENT JUNE 7 ON THE TERMS OF A GRANT TO SURVEY SKIPJACK TUNA IN THE CENTRAL AND WESTERN PACIFIC. AID'S CONTRIBUTION TO THE SPC PROJECT WILL BE DOLLARS 150,000 EACH OF THE FIRST TWO YEARS, WITH ADDITIONAL AMOUNTS DEPENDENT ON THE AVAILABILITY OF FUNDS. SIGNATURE OF THE CONTRACT WITH THE SPC IS SCHEDULED FOR MID-JULY IN NOUMEA. OTHER DONORS CONTRIBUTING TO THE PROJECT, BUDGETED AT DOLLARS 903,000 ANNUALLY FOR THREE YEARS, CONFIDENTIAL

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ARE AUSTRALIA, NEW ZEALAND, JAPAN, UK AND FRANCE.

10. PERSONNEL CHANGE (UNCLASSIFIED)

DAVID H. STEBBING JOINED THE STAFF OF EA/EP ON JUNE 6. HIS MAIN AREA OF RESPONSIBILITY WILL BE BILATERAL AND MULTILATERAL ASSISTANCE AND PRIVATE INVESTMENT FLOWS.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 08-Jun-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE131766
Document Source: ADS
Document Unique ID: 00
Drafter: EA/EP:STAFF:SRP
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D770203-0745
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197706110/baaaewdc.tel
Line Count: 257
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 80219e73-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2013762
Secure: OPEN
Status: NATIVE
Subject: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT, JUNE 7, 1977
TAGS: EGEN, ECON, XC, XE, XP
To: ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS XMT PEKING
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/80219e73-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009